

FOREIGN OPERATIONS ADMINISTRATION

OFFICE OF THE DIRECTOR
Washington 25, D.C.

March 14, 1955

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MEMORANDUM TO: The Secretary of State
The Secretary of the Treasury
The Secretary of Defense
The Secretary of Commerce
The Chairman, Council on Foreign Economic Policy
The Chairman, Operations Coordinating Board
Special Assistant to the President for
National Security Affairs
Honorable Nelson A. Rockefeller
Honorable Gabriel Hauge

SUBJECT: Report on Journey to Asia - February 21 to March 13, 1955

Countries Visited: Thailand (Final Day, SEATO Conference), India,
Pakistan, Ceylon, Philippines, Korea, Japan.
Session at Bangkok with Foreign Ministers of
Australia, New Zealand, and the United Kingdom.

Conferences in each country with Prime Minister, Finance and
Economic Ministers, Economic Planning Commissions, and related leader-
ship. Accompanied in conferences by representatives of Department of
State (usually Ambassador and Economic Counselor), Department of the
Treasury (William Diehl), and Department of Commerce (Eugene Brademan).

In each instance the National Security Council papers were used
as a guideline for U. S. views, with further detailed guidance from a
conference with Secretary Dulles at Bangkok.

U. S. briefing papers for the journey covered the entire region,
including countries not visited.

The Situation

In this arc of free Asia, 766 million people, or 45% of the
free world's population, reside.

Average per capita annual income is \$85.

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A reasonably adequate over-all food supply now for the first time.

Better clothing than before.

Inadequate-pitiful housing.

Very little industry.

Desperate shortage of capital.

Interest on short loans 60 to 90 days with collateral 10% to 20%.

Long term domestic industrial capital almost nonexistent.

Extreme limitations on foreign exchange.

Major communist penetration attempts are accelerating.

Considerable urban unemployment.

Large numbers of overseas Chinese.

Widespread conviction that the colonial powers (the white man) held back their industrialization and their development.

More confidence in U.S.A. than in other western nations, but considerable suspicion here, too.

Increasing recognition of the skill and experience of Secretary Dulles in international policy.

Large measure of confidence in good intentions and good purposes of President Eisenhower.

Conclusions

- A. Odds are at least even that the U. S. policy and program as established by the National Security Council can be implemented, but success is by no means certain.
- B. Acceleration of industrialization in Asia is an indispensable part of a successful program.
- C. It will be a long term struggle.
- D. The Malenkov resignation and statement of difficulty in agriculture shook the Communists and intrigued the neutralists.

- D. Japan could play an important part.
- E. Western Europe can participate to limited extent.
- F. Joint actions of Asians with Americans, or with other white men, participating as equals are crucial. The alternative is an Asia for Asians wildfire with Communists included and white men excluded, regardless of resultant economic chaos or suffering.

Recommendations (Subject to further engineering review)

To be carried out to maximum extent through U. S. private companies with special government backing.

1. U. S. participation in a joint India-Japanese development of Indian iron ore and coal and some expanded steel capacity of both Japan and India. This will require some long term loans, preferably behind U. S. private industrialists, engineering participation, and public relations skill of a triangular nature. This is an economically sound project, it will bring together for mutual advantage the two key economies of free Asia, and it will tie in U. S. participation on a continuing basis.
2. New cement plants in Pakistan, Ceylon, Thailand, Philippines. Western European capital to assist.
3. Sugar refineries in Ceylon, Indonesia, and India. Western European capital to assist.
4. Paper and wall board plants in Philippines, Korea, Pakistan.
5. Plastic production in Pakistan, India, Burma.
6. Improved rice mills and storage in all countries, with Japanese participation.
7. Expanded furniture, plywood, sawmill capacity in most countries, with Japanese and Western European participation.
8. Small refrigerator plants and refrigerator trucks for fish distribution in most countries with participation of Japan and Norway.
9. Other small industries under private enterprise to be fostered with participation of Japanese and Western Europeans.

10. Help in the design of low cost housing of indigenous materials and in the establishment of savings and loan institutions.
11. Establishment of industrial credit facilities for medium industries, with participation of World Bank (IBRD).
12. Improved payments arrangements for intra-area trade especially between Japan and the sterling area countries, and between Japan and Vietnam, Cambodia, and Thailand.
13. Originate a small loan method for college graduates who wish to open up a small production shop or desirable enterprise.
14. Cooperate in an early meeting of a working group of Colombo Plan country officials and assist in establishing a small headquarters.
15. Follow through with agricultural and social service (health, etc.) programs, but hold back tendency for countries to get out of balance in the burden of social services which cannot be carried without handicapping new internal investment for development.
16. Publicize results through Colombo Council, with generous use of pictures and multilingual captions.
17. Publicize slave labor accounts of Communist area and Communist food shortage stories throughout area through some local Asian source.
18. Cooperate with countries in planning gradual improvement of roads, railroads, ports, coastal shipping, and where appropriate, internal aviation.
19. Study possible commercial methods for increased distribution of products of cottage industry, including better design and some standardization.
20. Make an engineering survey of the Mekong River area with joint Thailand, Burma, Laos, Cambodia, and Vietnam participation.
21. Set up a technical planning committee on the peaceful use of atomic energy in the Colombo Plan area.
22. Expand the relationship between leading universities of the Asian countries and the land-grant colleges and technical schools of the United States.
23. Establish a liaison between the Colombo Plan group and the Organization for European Economic Cooperation (OEEC).

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- 2b. Facilitate the private construction of a new hotel in Colombo, New Delhi, and Bangkok, to increase contact through tourists with the West and to earn foreign exchange.

Attainable Targets

Economic development such as anticipated in this program, primarily as a result of the efforts of the individual Asian nations, and with the marginal, stimulating, catalytic effect of U. S. assistance and cooperation, should lead, as I see it, to a growth of the gross national product of the free Asian area in the next eight years of 30%, to a total of slightly over \$85 billion per year from its present \$65-70 billion level.

Such growth should be sufficient to establish the economic stability and public attitude necessary for political order and orientation toward the free world.

By-products of the Journey

During the conferences the way was smoothed a bit for the solution of the following:

1. Settlement of Japanese-Philippine reparations.
2. Opening up trade between Korea and Japan.
3. Broadening trade between Pakistan and India.
4. Resolving the Ceylonese-rubber-Battle Act controversy.

The attraction of Asian-African combinations against the West at the forthcoming Bandung Conference was diminished.

Harold E. Smith
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